



Hawaii Tax News

Administering the tax laws for the State of Hawaii in a consistent, uniform, and fair manner

Volume 7, Number 3

State of Hawaii • Department of Taxation

FALL 2003

One-Stop Service

One-stop service has come to Oahu! Since different offices on two floors of our building provide different kinds and levels of tax services, bringing one-stop customer service to Oahu has taken months of careful planning and an exceptional willingness on the part of staff to embrace change.

While not everything can be accomplished with one stop, our goal is for our Oahu Taxpayer Services Branch to service most of the taxpayers contacting them for information, assistance, and problem resolution. To accomplish this, we are restructuring the Taxpayer Services Branch and will eventually increase the number of taxpayer assistors from 12 to 21, pending approval for hiring.

We did not add new positions to accomplish this, but merely transferred existing positions from other areas of the Department. Most of these additional positions are currently vacant, so it will be some time before the new Taxpayer Services employees can be hired and trained.

Current taxpayer assistors, and the new assistors when hired, continue to be trained and cross-trained to provide a wider range of services. For example, they will be able to perform simple tax return corrections now being done by our office auditors, and simple collections tasks currently being done by our collectors.

In this way, most taxpayers will have their questions and problems resolved faster and with one call or visit, and our audit, collections, and technical staff can concentrate on handling the more serious or specialized cases and questions.

The revamped Taxpayer Services Branch should be up to speed by January, but your patience as both the new and existing employees develop the knowledge and experience needed to efficiently manage their new duties will be appreciated.

New Telephone Messages

It's not very customer friendly when taxpayers have to call multiple times in order to get through our busy telephone lines, so we've done something about it.

We are increasing the number of assistors in our

Taxpayer Services Branch, but that is only part of the solution. We found that a large number of calls were for routine information such as our office location, hours of operation, and the like.

To address these types of questions, we implemented a call attendant system in August which prompts callers to press a number, followed by the pound (#) sign, to obtain information even after hours! Of course, callers can go directly to a live person during business hours by pressing zero (0) at any time.

In addition to our office location and hours, other selections provide recorded information on our mailing address, website address, forms request numbers, e-mail address, and on making a payment.

If an urgent situation arises, this system is flexible enough to allow us to add new messages at any time. For example, if a problem arises that we think will affect a number of taxpayers and generate a lot of calls to the Department, we can immediately add a new message so that callers can hear automated information about the situation instead of a busy signal!

During the tax season, a lot of our calls are about the status of tax refunds, and automating this information is a priority. In the works for implementation sometime next year are plans to provide automated refund information by telephone.

Although most people would rather speak to a live person, we can't accommodate everyone without adding

See New Messages, Page 2

IN THIS ISSUE

One-Stop Service	1
New Telephone Messages	1
The Direct Line	2
Offers in Compromise	2
Tax Credit Changes Effective July 1, 2003	2
Digest of Tax Measures	3
Year-End Workshops	3
Post-Tax Season at the Department	3
Criminal Section - Concluded Investigations Resulting in Prosecution/Convictions	4
Recently Issued Tax Publications	6
Pending Tax Publications	6
Fiscal Year Ended 2003 State Tax Collections	7

The Direct Line ☎

By Director Kurt Kawafuchi

The implementation of our "One-Stop Service" went off with a bang on October 1, 2003. The goal of One-Stop Service is to centralize customer inquiries in the Taxpayer Service/Customer Inquiry section, to allow other divisions more time to focus on core processes, and to handle the customer inquiries at the first point of contact. Our goal is to have an answer rate of 80%. As with the implementation of any major project, we anticipate challenges along the way with the implementation of the One-Stop Service and would appreciate your patience during the transition period.

Our 2003 summer workshop series came to a close in September. I really appreciate the great participation on all the islands. A record number attended our Oahu workshop - approximately 310 attendees!

I look forward to seeing you at our year-end workshop!

New Messages

(From Page 1)

to the size and cost of government. By providing more options to our customers, we can provide faster responses through automation where appropriate, and give callers with less routine questions and problems a better chance of getting through to a live assistor the first time.

Offers in Compromise

Are you behind on your State taxes and can't see a way out? A recent change in Hawaii's tax law may make it easier to settle your taxes and get a fresh start.

If paying your tax in full or in installments is not possible, a third option may be to compromise on the amount due by offering to pay the Department an amount less than the entire balance due to settle your account. If the Department determines that there is doubt as to whether it can collect the entire debt or doubt as to whether you actually owe the amount determined by the Department, then the Department may agree to compromise on the amount of tax, penalty, and interest and accept the amount offered.

Such offers are subject to some negotiation, and if the taxpayer has the potential for future earnings, the Department may require you to pay an additional amount if your earnings exceed certain thresholds in the

ensuing years.

In the past, offers in compromise not only were subject to close scrutiny and evaluation by the Department, but also required the Governor's approval. Once approved, certain information about the offer became part of the public record.

Effective June 4, 2003, however, Act 136, Session Laws of Hawaii 2003, allows the tax director, instead of the Governor, to accept offers in compromise if the tax does not exceed \$50,000, exclusive of penalties and interest. Before the offer can be accepted, the proposed offer must be posted on the Department's website (www.state.hi.us/tax) for five calendar days.

For more information on Act 136, see Department of Taxation Announcement No. 2003-6. Detailed information on offers in compromise was previously published in Tax Facts No. 2000-2, dated December 2000. This Tax Facts publication is currently being revised, and the updated Tax Facts No. 2000-2 should be available in the near future.

Copies of these publications may be obtained from our website at www.state.hi.us/tax, by calling our request line at 587-7572 (toll-free at 1-800-222-7572), or from any district tax office.

Tax Credit Changes Effective July 1, 2003

Recently enacted Act 207 creates a new renewable energy tax credit for solar, wind, and photovoltaic energy systems effective July 1, 2003.

This credit partially replaces the energy conservation
See Tax Credit Changes, Page 3



The Hawaii Tax News is a publication of the State of Hawaii, Department of Taxation.

Director: Kurt Kawafuchi
 Editor: Lynne Kuroda
 Address: Princess Ruth Keelikolani Building
 830 Punchbowl Street, Room 219
 Honolulu, HI 96813-5094
 Telephone: 808-587-1577
 Fax: 808-587-1584
 E-mail: Technical_Section@tax.state.hi.us
 Website: www.state.hi.us/tax
 Forms By
 Fax/Mail: 808-587-7572
 Toll-Free 1-800-222-7572
 Consumer Dial: 808-587-1234, code 7700

Tax Credit Changes

(From Page 2)

tax credit that expired on June 30, 2003; heat pumps and ice storage systems are not eligible for the credit. Unlike the former credit, the new credit is not available to banks and other financial institutions that file franchise tax returns.

Effective July 1, 2003, the hotel construction and remodeling tax credit has changed back to the 4% refundable credit originally enacted in 2000.

In the wake of the 9/11 terrorist attacks, the credit was changed from a 4% refundable credit to a 10% nonrefundable credit for costs incurred through June 30, 2003.

The Legislature passed a bill to extend the 10% nonrefundable credit until 2006, but at a reduced rate of 8%. This bill, which also would have extended the credit to commercial buildings and facilities within resort areas in addition to hotel and time-share facilities, was vetoed because it did not contain a cap on claims for the credit and the potential cost was too high in light of the Council on Revenues' general fund revenue projections.

Digest of Tax Measures

The Department of Taxation's Digest of Tax Measures is now available on the Department's website at www.state.hi.us/tax/!

As it does each year, the Department has published a summary of State tax legislation enacted and vetoed this year. The Digest also lists the specific sections of the Hawaii Revised Statutes that were affected by the new legislation, as well as provisions of 2002 federal tax legislation that are operative and inoperative for Hawaii income tax purposes.

A limited number of hard copies are available by calling the Department's request line at 587-7572 (toll-free at 1-800-222-7572), or from any district tax office.

Year-End Workshops

Planning has begun for our year-end workshop series. Along with our presentations on such things as new and revised tax forms, you'll also hear a presentation by the Internal Revenue Service and a tax case update by the Tax Section of the Department of the

Attorney General.

The dates for the half-day workshops are: Maui - November 20; Kauai - November 25; Oahu - December 15; Kona - December 18; and Hilo - December 19.

All workshops will begin at 9:00 A.M. and end at 1:00 P.M. Four hours of CPE credit is available to attendees.

The information and registration flyer will be available on our website at www.state.hi.us/tax sometime in October. For more information, call our External Training and Outreach program at 808-587-1786.

Post-Tax Season at the Department

Ever wonder what goes on at the Tax Department between tax seasons? A LOT! It seems that the flow of tax returns never ends. The mailroom and other processing areas, as well as our audit and collections branches, are really humming along. The October 20 extension deadline is right around the corner. Periodic general excise and other business tax returns are year-round.

Requests for tax information and assistance ease just a bit after the tax season, but hundreds of telephone calls, e-mails, and letters, are still coming in every day.

After months of planning, we implemented our beefed-up, one-stop taxpayer assistance service on October 1, 2003. See the article on page 1.

Our Technical Section has, for some months already, been revising next year's tax forms. By the end of October, most of the forms should be finalized and off to the printers.

The 2004 legislative session is also just a few months away, and overlaps with what is for all of us a busy time of year. Busy or not, what happens during the legislative session can have far-reaching consequences.

Our Rules Office has been working to implement the 2003 law changes, while at the same time looking for anything needing a legislative fix in 2004 and tracking 2003 federal legislation that may affect our annual Internal Revenue Code conformity bill. Working with them is our Research Office, which also is compiling the tax collection data that is the focus of a lot of interest these days.

Finally, there is a lot of important behind-the-scenes work going on as we continue the development and phased implementation of our integrated tax information management system (ITIMS). The ITIMS project may not be a front-line activity, but everyone

See Post-Tax Season, Page 6

**Criminal Section – Concluded Investigations Resulting
in Prosecution/Convictions
Fiscal Years 2002 and 2003**

Act 136, SLH 2003, allows the tax director to hire criminal investigators who have privileges similar to those of police officers and deputy sheriffs so that the Department can more effectively pursue those who violate the tax laws. The Department continues to encourage taxpayers to voluntarily file their tax returns. The Department generally will not initiate a criminal investigation when taxpayers voluntarily come forward to report their failure to file or other omissions. Concluded criminal investigations resulting in prosecution/convictions for fiscal years ended 2002 and 2003 are summarized in the chart below:

VIOLATIONS				
Name	Business Activity	Violation	Result	Conviction Date
Memito Ablan	Realtor	Failure to File GE	Pled Nolo	08/10/01
David Bettencourt	Attorney	Failure to File GE	Pled Nolo	09/24/01
BIC Bridal Hawaii, Inc.	Sales	Failure to File GE	Pled Nolo	02/04/02
Catherine Coelho	Property Manager	False Returns	Pled Nolo	08/31/02
Dexter Coelho	Services	Evasion of Tax	Pled Nolo	08/31/02
Carolina Dayoan	Medical Practice	Failure to File GE	Pled Guilty	01/11/02
Diamond Co., Inc.	Retail	Failure to File GE	Pled Nolo	08/19/02
Kathleen Higa	Hardware Sales	Failure to File GE	Pled Nolo	12/13/01
Caryn Ige	Consulting	Failure to File GE	Pled Nolo	11/02/01
David Jinbo	Tax Preparer	False Returns, Theft	Defer Pros.	06/17/02
Joy A. McElroy, MD, Inc.	Physician	Failure to File GE	Pled Nolo	04/25/02
Eric Maehara	Attorney	False Return	Pled Nolo	01/16/02
Nobukatsu Naito	President, Video Corporation	Failure to File GE	Pled Nolo	11/08/01
Nippon Video, Inc.	Retail Video	Failure to File GE	Pled Nolo	11/08/01
Randall Ogata	President, Pet Store	Failure to File GE	Pled Nolo	01/15/02
Pets Unlimited, Inc.	Pet Store	Failure to File GE	Pled Nolo	01/15/02
Wayne Picanco	Mason Contractor	Failure to File GE	Pled Nolo	06/14/02
Ric Ramos	Sales & Service	Failure to File GE	Pled Nolo	02/22/02
Yvonne Ramos	Sales & Service	Failure to File GE	Pled Nolo	02/22/02
Sage Diamond Co., Inc.	Retail	Failure to File GE	Pled Nolo	08/19/02
Vincent Sage	Retail	Failure to File GE	Pled Nolo	08/19/02
James Schmit	Architect	Failure to File GE	Pled Nolo	09/07/01

See Criminal Section, Page 5

Criminal Section

(From Page 4)

VIOLATIONS				
Name	Business Activity	Violation	Result	Conviction Date
Vivian Soong	Return Preparer	Prep. False Returns	Pled Guilty	02/14/02
Taylng Yang	Medical Doctor	Failure to File GE	Pled Nolo	07/23/02
Jeffrey Yano	Retail Sales	False Returns, Theft	Pled Nolo	01/29/03
Douglas Abarca	Individual Taxpayer	False Return, Theft	Pled Nolo	02/19/03
Builders of Hawaii, Inc.	Building Contractor	Failure to File GE	Pled Nolo	06/27/03
Leticia Castillo	Gov't Employee	False Returns	Pled Nolo	05/21/03
Comm. Truck & Lift	Trucking	Failure to File GE	Pled Nolo	12/02/02
Daniel Doyle	Realtor	Failure to File GE, NI	Pled Nolo	05/21/03
Ed Ellenson	Computer	Failure to File GE, Theft WH	Pled Nolo	08/27/03
James Faria	Individual Taxpayer	False Return, Theft	Pled Nolo	02/03/03
Vikki Ferstler	Service	Failure to File GE	Pled Nolo	09/13/02
Valerie Hamada	Food Service	Failure to File GE	Pled Nolo	10/29/02
Austin Keanu	Individual Taxpayer	False Return, Theft	Pled Nolo	04/23/03
Dale Keama	Individual Taxpayer	False Return, Theft	Pled Nolo	02/19/03
Craig Lee	Trucking	Failure to File GE	Pled Nolo	12/02/02
Michael Lippert	Attorney	Theft WH	Pled Nolo	07/14/03
Eugene Miranda	Individual Taxpayer	False Return, Theft	Pled Nolo	05/20/03
Harvey Nakamoto	Building Contractor	Failure to File GE	Pled Nolo	06/27/03
Fred Overstreet	Realtor	Failure to File GE	Pled Nolo	05/21/03
Jeffrey Page	Tourism Service	Failure to File GE, False Returns	Pled Nolo	02/03/03
Bonnie Prebula	Pharmacist	False Return, Theft	Pled Nolo	07/16/03
Louis Tapu	Individual Taxpayer	False Return, Theft	Pled Nolo	05/05/03
Sonia Tapu	Individual Taxpayer	False Return, Theft	Pled Nolo	05/05/03
Andrew Tung	Individual Taxpayer	False Return, Theft	Pled Nolo	02/20/03
Shopping Svc. of HI, Inc.	Food Service	Failure to File GE	Pled Nolo	10/29/02

Post-Tax Season

(From Page 3)

who is now able to electronically file returns through our joint federal-state e-filing program (JELF), e-filing via the Internet program (ELF), and bulk filing via the Internet program has this hard-working team to thank.

The Department's mission is to administer the tax laws of the State of Hawaii in a consistent, uniform, and fair manner. Our employees strive to accomplish this mission, not just during the tax season, but through the entire year.

Recently Issued Tax Publications

The following is a list of the publications issued by the Department of Taxation from January 2003 through September 2003. Copies of these publications may be obtained from our website at www.state.hi.us/tax, by calling our request line at 587-7572 (toll-free at 1-800-222-7572), or from any district tax office.

TIR No. 2003-1 - Provides information on the proper application of the law regarding the high technology business investment tax credit.

TIR No. 2003-2 - Provides information on the extension of deadlines and other tax relief for members of the armed forces, reserves, and Hawaii National Guard.

Announcement No. 2003-1 - Provides information on the new and revised high technology business investment tax credit forms.

Announcement No. 2003-2 - A listing of new and obsolete tax forms, instructions, and schedules; errors found on Hawaii tax forms.

Announcement No. 2003-3 - Provides a list of candidates for political office who voluntarily filed affidavit forms with the campaign spending commission.

Announcement No. 2003-4 - Provides information on Act 14, SLH 2003, which provides corrective legislation to Hawaii's estimated tax underpayment penalty and clarifies the law regarding extensions to file tax returns.

Announcement No. 2003-5 - Provides information on Act 100, SLH 2003, which provides a nonrefundable attractions and educational facilities tax credit equal to 100% of certain costs incurred after May 31, 2003, and before June 1, 2009, for the development of such facilities at Ko Olina Resort and Marina and the Makaha

Resort.

Announcement No. 2003-6 - Provides information on Act 136, SLH 2003, which changes tax administration by (1) authorizing the Department of Taxation to waive penalties and interest on tax liabilities that have been delinquent for more than 90 days, (2) streamlining the offers in compromise process by authorizing the tax director, instead of the Governor, to accept offers in compromise for tax liabilities that are \$50,000 or less (exclusive of penalties and interest), and (3) allowing the tax director to hire tax criminal investigators.

Announcement No. 2003-7 - Provides information on the increase in the cigarette tax to 6.5 cents per cigarette for sales, use, or possession of cigarettes after June 30, 2003.

Announcement No. 2003-8 - Announces the increase in the Maui County gasoline and diesel fuel tax rate from 13 cents to 18 cents per gallon, effective July 1, 2003.

Announcement No. 2003-9 - Provides information on Act 135, SLH 2003, which amends or repeals obsolete tax laws.

Announcement No. 2003-10 - Provides information on Act 172, SLH 2003, which brings Hawaii Income Tax Law into conformity with many but not all of the changes made to the Internal Revenue Code as of December 31, 2002.

Announcement No. 2003-11 - Provides information on Act 173, SLH 2003, which authorizes Hawaii's participation in multistate discussions relating to the Streamlined Sales Tax Project which is a nationwide effort being undertaken among the various states.

Hawaii Tax Information at a Glance Brochure - Revised June 2003.

Digest of Tax Measures - Enacted by the State of Hawaii, Twenty-Second Legislature, Regular Session of 2003.

Pending Tax Publications

The following is a list of some of the Department's pending tax publications.

Administration of Taxes

- Application of penalties and interest and the waiver of penalties and interest - sections 231-3 and 231-39, HRS.
- Clarify the offers in compromise process.

See Pending Publications, Page 7

Pending Publications

(From Page 6)

Income Tax Law

- Clarify the application of the Hawaii tax credit for increasing research activities.

General Excise Tax Law

- Clarify the general excise tax rules, including the application of the general excise tax for reimbursements - section 237-20, HRS.

Transient Accommodations Tax

- Clarify the application of the transient accommodations tax.

Conveyance Tax Law

- Clarify the application of the conveyance tax.



Fiscal Year Ended 2003 State Tax Collections

July 2002 - June 2003

(In Millions of Dollars)

	<u>FY 2003</u>	<u>FY 2002</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
Individual Income Tax	\$ 1,038.1	\$ 1,071.6	\$ -33.5	-3.1%
Corporate Income Tax	8.3	45.5	-37.2	-81.8%
General Excise Tax	1,792.7	1,612.3	180.4	11.2%
Transient Accommodations Tax	170.9	157.6	13.2	8.4%
All Others	723.6	637.4	86.2	13.5%
Total Tax Collections	\$ 3,733.5	\$ 3,524.4	\$ 209.1	5.9%
General Fund Revenues	\$ 3,182.0	\$ 3,048.5	\$ 133.5	4.4%

(Note: Totals may not add up due to rounding.)

Total tax collections for fiscal year 2003 amounted to \$3,733.5 million, or \$209.1 million more than the same period last year. General excise tax (GET) collections, one of the most comprehensive indicators of the economy, jumped \$180.4 million, or 11.2%, to \$1,792.7 million for fiscal year 2003. GET details indicate that construction and real estate activities (contracting and commissions) are growing very strongly. However, the drop in corporate and individual income taxes partially offset the GET collections. Possible reasons for this drop may be the increase in tax credit claims, loss of capital assets, and lingering effects of the September 11, 2001, terrorist attack.

Consistent with a 4.8% increase in visitor arrivals is an 8.4% increase in transient accommodation taxes. Other major increases include: \$15.2 million for franchise tax mainly due to payments made under protest; \$24.1 million for unemployment security due to a tax rate increase; and \$20.1 million for public service company taxes. Another reason for the overall growth is the “weekend effect”, where collections for the month of June 2002, were due on July 1, 2002, shifting the collections into fiscal year 2003. General fund revenues totaled \$3,182.0 million, increasing by \$133.5 million, or 4.4%, over fiscal year 2002.

Taxpayer Services Branch
State of Hawaii
Department of Taxation
P.O. Box 259
Honolulu, HI 96809-0259

TAXPAYER SERVICES BRANCH

Princess Ruth Keelikolani Building
830 Punchbowl Street
Honolulu, HI 96813-5094

Website: www.state.hi.us/tax

E-mail: Taxpayer_Services@tax.state.hi.us

Fax: 808-587-1488

Telephone:

808-587-4242

1-800-222-3229 (Toll-Free)

808-587-1418 (TDD - For the hearing impaired)

1-800-887-8974 (TDD Toll-Free - For the hearing impaired)

Forms By Fax/Mail:

808-587-7572

1-800-222-7572 (Toll-Free)